

LIFE AFTER LIBERALISATION

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FORUM OF FREE ENTERPRISE

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By

Dr. ASHOK S. GANGULY*

"Free Enterprise was born with man
and shall survive as long as man
survives".

-A.D. Shroff
1899-1965
Founder-President
Forum of Free Enterprise

Like many amongst you, I am struggling to comprehend the heightened state of disorder prevailing in the world. Everything seems to be moving so fast and unpredictably as to intensify one's anxieties about the future. It was in this frame of mind that I recalled my recent visit to Japan. In the course of my discussions at various institutions there we touched on the nature of innovation, which is an important driving force in society and a subject close to my heart. A very eminent Japanese expert remarked to me that the half-life of innovations in the 60s was generally of the order of ten years; currently, he said, this had reduced to around five years. At the rate at which the world was progressing he predicted that half-life of innovations was more likely to be nearer two years by the turn of the century. In other words, instead of appearing in blocks and as discrete events, innovation, to be sustainable, would virtually have to flow out of imaginary pipelines to match the

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demands of humankind. These views were reiterated by a number of people I met during the remainder of my stay in Japan.

Being primarily business-related issues, my thoughts frequently returned during the following months to the observation of the Japanese experts as they related to my own work and preoccupations.

However, in today's age of hypercommunications and the speed with which events move, private thoughts, personal preoccupations and philosophical debates cannot be kept too isolated from broader issues which lie in the public domain. It is overlap between professional preoccupations and public issues that has led me into the subject of today's lecture.

If innovation half-life is shortening as rapidly as the Japanese experts explained, this could not be taking place either on its own or in isolation, I thought to myself. The observed phenomena, without doubt, were being driven by advances in science and technology fuelled by society's demands from them. Therefore, either by design or by a combination of a number of unrelated forces, which we do not as yet quite understand, the entropy of human society is undergoing permanent change at speeds heretofore unexperienced. The consequences, as all of us are painfully aware, are confusing, threatening, at times reassuring, but all the same vague and not relatable to our individual hopes and preoccupations. Nevertheless, it is in the nature of mankind to explore

the unknown and the uncertain. Therefore, virtually everyone in nations around the world is engaged in the serious task of speculating on how events may unfold in our lifetime, and how we might try and relate to these.

In the rest of this paper, I have referred to instances of certain unanticipated developments around the world. Without in any way trying to find similarities with developments in our own country, I have speculated on what we may learn from them. Finally, I have dealt with a few key issues which may determine the future course of our own development.

BACKGROUND

It was during the Christmas holidays in 1989 that I found myself in Calcutta. Through the long cold evenings I contemplated the fascinating events unfolding in Germany at the time. Subsequently I put down my thoughts in the form an article* "From Brettonwoods to Brandenburg Gate", covering the period from the end of the Second World War to the collapse of the Berlin Wall.

In retrospect, what then appeared so unprecedented and spectacular has since been overtaken by events which are significantly more **breathtaking**. We seem to have reached a point where any speculation about the future would appear to be hazardous.

THE CURRENT SCENE

The **má**ajor events that keep unfolding dramatically on

**(P.C. Lal Memorial Lecture, 1990)*

the international scene virtually every day force one to think of them in terms of ever shortening half-life and shifting entropies of nations, societies and institutions.

When some years ago President Gorbachov propounded perestroika and glasnost, very few could imagine that he was unleashing a global event. As it transpires, this act did not herald the end of socialism, social concern or the unbridled freedom to market forces. Gorbachov had, as a matter of fact, tried to usher in the liberalisation of mankind.

What appeared at the time to be bold and unprecedented was subsequently rejected as being insufficient by the very people whose lot those reforms were meant to improve. The sequence of events which started unfolding in the Soviet Union, today leaves no part of the world untouched. In its wake it has released a plethora of social, national and regional emotions and forces whose future course and outcome are entirely unpredictable.

At this point it may be worthwhile turning to certain key developments which are relevant to the present time.

The major event following the reordering of the world after the allied victory in World War II was the economic resurgence of Japan and Western Europe. The struggle by the newly independent nations of the Third World seeking growth and development, and the isolation of the Comecon and China from the mainstream of the global market economy evolved

simultaneously. The proponents of the power of free market forces were merely acknowledging the overwhelming benefits of creating conditions which gave freedom of expression to human propensities. Those of socialism failed in trying to centralise and control human endeavour. There were varying shades in between.

A country like India had a limited choice, Even in the late 40s conditions for foreign investment were not propitious, and India was forced to adopt central planning to husband her meagre resources and provide a newly independent nation with a fair start. The international financial institutions had an important, if somewhat under-exploited influence on the nations of Third World. Even today their role is somewhat exaggerated.

Of current interest are events such as the knock-on effects of developments in the various republics of the Soviet Union, the disputes between the Serbs and the Croats, and many of the less publicised but equally intense ethnic and cultural conflicts emerging in different parts of the world. Many of the nations or regions whose geography and boundaries were remarcated less than fifty years ago have decided to restore the status quo ante. Not necessarily because their languages or cultures have been tampered with unduly; in most cases the intensity of feeling of having been denied religious freedom is not all that great. It is more the expression of frustration of a generation's lost lifetime without growth and

progress and a sense of utter hopelessness with regard to the future.

Issues such as sustainability or economic viability of many of these newly liberated aspirants have not been given a second thought, at least for the time being. The loss of trust in leaders in these regions and their ability to deliver social justice is absolute. The nations of the developed world and international institutions are seen as saviours in these grim times. There is very little debate, if any, about how the miraculous rescue of moribund and unproductive economies would take place.

There are still heated debates amongst the **die-hard** leftist politicians who fear a new world domination by the free-marketeers, even though their own methods, spanning more than two generations, have failed so miserably and they have no better alternatives to offer.

The stark fact is that there are no simple solutions to the mind boggling problems facing nations. In nations and regions where individual propensities have been atrophied for over a generation, where collectivised and centralised planning has all but destroyed human endeavour and initiative, where vested interests have thrived and prospered beyond even their own wildest dreams - to change it all by the wave of a wand is just not possible. These issues are governed by laws of social progress and human ingenuity and endeavour. Mankind has yet to discover a short cut to building up

prosperity and sustainable social well being other than through hard work and **economic growth**.

Although it is not yet openly acknowledged, everyone realises the heavy price to be paid in these liberating societies which have rusted through disuse of human endeavour. To rekindle human drive and initiative, to convert swords into ploughshares, to make a million **farms** bloom, will need blood and sweat in quantities unrecorded in human history. It is in the self-interest of the developed nations to provide help, support and encouragement to this process, even as an act of enlightened self-interest. Their resources are also finite. They are likely to do as much as possible to balance the preservation and progress of their own societies with the need to avoid the danger of plunging the whole world into a deep crevice of gloom, despair and disorder.

In other words, life after liberalisation can be built only by blood, toil and tears; not by political rhetoric or by pretending that there is some easy route, as politicians in some countries fondly hope, even in this day and age.

The important point to be borne in mind, amidst all this chaos, is that societies are not trying to struggle and liberate themselves from forces of social control to embrace the forces of **laissez faire**. If that were so, it would be too simplistic and naive an interpretation of the complex developments we are witnessing. Fundamentally, the struggle is to free humankind

from the shackles which have repressed human propensities and aspirations. The State's responsibility to mete out social justice must have pre-eminence and absolute accountability as opposed to its self-abrogated role in trying to control human destiny.

In multi-state nations there is no longer a dispute about the role and relationship between the constituent states and a federal centre. It is a universal fact that a state and its people wish to be left alone to get on with their plans and programmes to improve their lot. A federal centre makes sense only if it can add value to these endeavours rather than unproductively intervene in them.

These relationships are further complicated by the fact that in every nation state certain regions have competence, capabilities and natural resources which are different from others. Instead of trying to balance these natural advantages positively to benefit the nation as a whole, there has been a tendency in centrally controlled economies to suppress the able while not improving the lot of those who may be less well endowed.

The multipolar-development model has frequently been branded as being elitist, non-egalitarian and socially corrosive. There may be a grain of truth in this as well. But then what are the alternatives? The productivity of farmers in certain parts is significantly higher compared to certain others. Similar is the case

with industrial skills and attitudes of certain sections in a society.

One cannot suppress the able in order to console the less well endowed. The progress of countries with developed and free market economies compared to the backwardness of socialist nations are a living proof of this reality. Those who are able to generate wealth and employment within a nation state and thus contribute to growth and revenues must be freed to do so, so that the federal polity can provide social justice and thus economic **equilibrium** to parts which are less well endowed in this respect. Under these conditions, the whole is always greater than the sum of the parts, provided the parts are not forcefully smothered into the whole. It is in tackling such issues which touch the heart of societies that leadership, vision and honest assessment are called for, qualities so woefully lacking in those who are charged with changing tomorrow's societies.

INDIA

Eastern Europe, China and Brazil represent contrasting examples of recent developments. The bi-polar power balance under the shadow of which the world has lived since World War II is at an end with the developments in the Soviet Union. The monolithic structure of the US now needs to be seen juxtaposed with a uniting Europe and more globalising Japan. The undeniable influence of socialist regimes on free market societies in providing

a more human face to capitalism will now seek new mentors.

The unbearable pressures on the social order in Brazil provide lessons of another kind. Overheated development can sometimes be as chaotic and rigid as centralised planning. China's great leap forward, or rather its failure, occurred at a time when the global balance was such as to preclude external influence. The safety valve provided by Hong Kong, Guandong, and Taiwan may enable China to pursue gradualism. It is a somewhat isolated and unique example, North and South Korea providing probably the closest parallel.

There is, therefore, no simple model or well proven example which can be the basis of transiting from centralised planning and low level economic performance to well planned liberalisation and accelerated economic growth.

A factor which is emerging, however, is that in all instances there is a certain pattern in the systems dynamics of social change. None of these are movements led by charismatic leaders, or economic wizards, or even technocrats. Unusual social forces are emerging which aim to balance the social responsibilities of a central polity while delegating to constituent states the task of generating goods, services and revenues.

The unfortunate fact is that in most countries these complex, emotive and difficult issues are not yet being

dealt with in a systematic and honest manner. To do so needs a different kind of vision, long years of dedication and hard work.

For example, the social unrest in parts of our country tend to be routinely branded as anti-national movements. While some of these indeed are beyond any shadow of doubt, a whole nation, or large parts of it, cannot suddenly become anti-national. The origins of a majority of these can be traced back to economic and social deprivations which have remained unattended for whatever reason. Because we have not been able to muster sufficient social vision and economic order, we remain mute witnesses to rising violence at the street, state and national levels.

India has many things in common with trends in certain other liberating nations. The faults for all our problems we believe lie with someone else. **Externalising** issues or trying to find quick fixes will fortunately no longer serve the purpose of gaining either political or economic respite.

Like nations which find themselves in dire economic straits, we will have to start repairing our fractured society and economy step by step. The days of incremental palliatives are over. The public glare of the rest of the world is neither important nor compelling. We are, however, too large to ignore them. What is no longer avoidable is the demand of our own people that we start managing our affairs significantly better, without undue state intervention.

Nation states, when they begin to emerge from the prevailing despair, will do so riding upon the shoulders of their own propensities, not pretending to be what they are not and certainly not tied to a system of perpetual handouts, even if this were a feasible proposition.

INDIA'S STRENGTHS, WEAKNESSES AND VULNERABILITIES

India's greatest strength is that the future of our people, our state and our nations in the next few years will be decided by our midnight's children. I belong to an earlier generation of pre-1947 India when we were held in thrall by the promises of Fabian socialism. The debate about the pros and cons of Nehruvian and neo-Nehruvian development models is the pre-occupation of my generation, not of those who are the movers and doers of today. It is this generation, which has produced an Amartya Sen and a Jagdish Bhagwati, the founders of modern economic philosophy relevant to the social needs and realities of the poorest of the poor. It is this generation which has achieved the greatest progress in science, education, industry, agriculture and health. One wonders how much more could have been accomplished without the unproductive, interventionist policies which shackled us when we were young!

I imagine central planning, suspicion of foreign capital, prevention of concentration of economic power, controls, self-reliance, and nationalisation of

economic flows, among others, were all variously relevant instruments in their utility: during the years following independence. Their eventual negative influence lay in adopting them as incontrovertible 'mantras' in which we trapped our society, with disastrous consequences. Our thoughtlessness lies in not recognising that parts of our country are better endowed for industrial development, parts for agriculture, others are rich in natural resources, and certain others a mix of these. Treating these natural endowments as if they were all somehow the same, prevented the maximisation of even planned economic development and attainment of social justice so dear to our heart.

The other key vulnerabilities are our failure to create economic and honourable livelihood for all, and population growth. The popular belief is that raising female literacy is the only positive factor which can influence acceptable control over population growth rates, and that, at the rate it is growing, India's population would surpass China's in another fifteen years. Following that, it might begin to stabilise in another twenty five. While this may well be true, it is not very nice to leave an even more populated and in all probability a more impoverished India for the midnight's grandchildren. In our traditional way we will single-mindedly try to spread female literacy as the end all to this unprecedented crisis we face as a nation. It is, however, dangerous to continue to live on slender hopes alone. Our population explosion is a

problem of calamitous proportions. There is an urgent need for the Central Government, and indeed all the states to put population control as the topmost priority of our nation. If we are unable to bring even a semblance of control over the problem, it will overwhelm and completely negate whatever progress we may achieve in all other spheres.

As far as employment is concerned I would like to refer you to my earlier paper on the subject (Hindustan Lever's AGM, 1990) and reiterate that those very same arguments continue to hold good, at least for the time being. Employment or dignified and productive earning of livelihood cannot be created artificially or by legislation. It is amazing that even in this day and age our policy framers tinker with failed policies to promise employment.

Employment is an adjunct of dynamic economic activity and growth. Sustainable economic growth takes place by providing freedom for human endeavour and under conditions of minimum state intervention. So long as we do not accept this as a nation honestly and wholeheartedly we will not find a solution to even higher rates of economic stagnation, unemployment, poverty and destitution. The corollary is that as the number of those who can never hope to be gainfully engaged continues to swell, they will be at the heart of our nation's hopelessness, despair and the social upheaval, which will keep growing every day.

The compelling inevitability of liberalisation is thus more stark than we may be ready, to acknowledge. There is, however, a vast difference between liberalisation on paper and liberalisation in practice. Until all our states are at liberty to develop growth plans and programmes which represent their individual strengths and the resources they can access, the dynamic effects of liberalisation are unlikely to percolate to the people on the ground.

What then are our real strengths? Our history, culture and heritage are inseparable parts of each one of us. We are intelligent, hardworking and have an abiding concern for our fellow men; attributes which many envy. We have a modern communication and transport infrastructure, as well as reasonable levels of natural resources and minerals. In spite of a history of subjugation, our farmers and urban middle class have demonstrated their ability to raise productivity and have taken advantage of modern technology. They are also as forward looking as the best in the world. We have two important raw materials, cotton and jute, whose role in an environmentally conscious universe could become quite spectacular provided, of course, we will it. There are many many more. How do we transform these strengths into economic output and use it to tackle problems of population and poverty? The only way we can do this is by adding value to ourselves, our country, and to our global trade. If it were so straightforward, why have we not done so up to now? Like many other people living in centrally

planned societies, we were happy to believe that some higher forces would make things happen on our behalf.

Today I feel heartened by the dawning of reality as reflected in the transformation of our economic policies without sacrificing our commitment to social justice. In the post liberated period no accomplishment will be worthwhile or even sustainable if 300 million of our fellow countrymen remain in the utter misery of poverty. My submission is that we will be better able to serve them if we let free the rest of the 600 million to get on with their jobs and missions.

RELATING TO THE WORLD

What can all this mean for India in a global perspective? There is a complex combination of factors which determine global ranking of attractiveness in terms of a place to invest in and do business. I suggest that we should not be readily carried away by examples in our neighbourhood or of successes and failures in South America. If we improve our internal environment by freeing the energies of our people, our own economic growth will be the catalyst and determinant of our global attractiveness. This is not to suggest that we should not do everything possible in the interim to correct our balance of trade and whatever else that may be required to sustain a higher level of domestic economic activity in the crucial transition phase. But

the quality, value and sustainability of our international trade and competitiveness is bound to undergo a positive change only when the quality and dynamics of our domestic economy changes in tune with global shifts.

Everything else being what they are, there are three factors which are emerging as invaluable elements in shaping any modern economy. These are SYSTEMS, TECHNOLOGY and LEADERSHIP. The realignment of the world order, and the speed and unpredictability with which it is happening have been primarily ignited by unbelievable advances in the technology of information management and communication. Systems which are based on facts rather than feelings are determining the speed of change. In India we are in a particularly fortunate position because of the rapid spread of and access to audio-visual communications, and we are also in the forefront amongst those who generate software for the advancement of information technology.

However, as far as technology in a broader sense is concerned, our obsolete industries, crumbling institutions and erosion of educational and scientific base are becoming millstones around the neck of our good intentions. We must clearly realise that no meaningful economic progress is possible without taking part in the global advances in technology. Whether it is in modernising food production, electricity generation, population control or protection

of the environment, these can be achieved within acceptable time and cost parameters only through advanced technology in the respective spheres. By now we must realise that our claim of having the third largest pool of scientists and technologists in the world is a bit of meaningless rhetoric in terms of their ability to add value to our economic growth and competitiveness. It is in this context that I read, with incredulity, how some heads of our leading scientific institutions have expressed alarm regarding the liberalisation measures taken by the Government. They believe, and quite rightly, that some of their obsolete processes and suboptimal scientific research will be swamped aside. Instead of rising to the occasion and accepting the challenge of change, they would like to continue using the taxpayers-money to keep India backward.

Who will make all this happen? And it is here that the issue of leadership emerges most unambiguously. In the modern world it is not those with personal charisma and performance alone who will emerge as leaders. It will be those who enable individuals, people and nations to gain the self-confidence to achieve by their individual and collective efforts social and economic objectives - they will be the real leaders of the future. I feel encouraged that the destiny of our nation will be determined by the midnight's children and their offsprings. They no longer carry the burden of justifying the failures of the past - neither are they

in thrall of what has been achieved since independence.

They are more concerned about the India of tomorrow and that of the next century. They well understand that the concept of accountability, speed and time have changed since they were born. To them the shortening of innovation cycle time from ten years to two is real: not a threat but a once in a lifetime opportunity.

POST SCRIPT

I have grown up in an environment where success was generally considered as something alien and to be looked upon with suspicion. Those who left the country to settle abroad were considered somewhat less than patriotic, though their remittances were not. These attitudes are, of course, antediluvian in a democratic nation and as much a fault of those who remained silent as those who demanded obeisance. The world is changing and so is India. This is an irreversible process. There is a sense of inevitability in matters of men and nations. Society will continue to advance, wildly if not willed, acknowledged and enabled.

Life after liberalisation will be thrilling, if somewhat awe inspiring, and for a time very painful. Years of inertia and under-performance cannot be wished away painlessly. History will record that Gorbachov brought the issues out into the public domain in his centrally moribund society. The late Rajiv Gandhi was

trying to do so in India. The policies announced by the present Government herald a refreshing departure from the past. But it is one thing to change policies and quite another to transform them into economic reality. This will also inevitably take place. The important thing is to achieve this in a socially sustainable manner.

"India is an old country but a young nation: and like the young everywhere we are impatient. I am young, and I too have a dream. I dream of an India - strong, independent, self-reliant and in the front rank of the nations of the world in the service of mankind. I am committed to realising that dream through dedication, hard work and the collective determination of our people. We will welcome all the co-operation that we can get." (Rajiv Gandhi, June 1985)

The views expressed in this booklet are not necessarily those of the Forum of Free Enterprise.

"People must come to accept private enterprise not as a necessary evil, but as an affirmative good".

-Eugene Black

FORUM OF FREE ENTERPRISE

The Forum of Free Enterprise is a non-political and non-partisan organisation started in 1956, to educate public opinion in India on free enterprise and its close relationship with the democratic way of life. The Forum seeks to stimulate public thinking on vital economic problems of the day through booklets and leaflets, meetings, essay competitions and other means as befit a democratic society.

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Published by M.R. Pai for the Forum of Free Enterprise,
"Piramal Mansion", 235, Dr. D.N. Road, Bombay 400 001.

Laser Typesetting by GRAI-HTECH, Tel: 261 7479

and printed at Vijay Printing Press,

9-10, 3rd Floor, Mahalaxmi Industrial Estate,
Gandhi Nagar, Lower Parel, Bombay 400 013.

15/Jan./1992

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